DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

# HAITI

# INSTITUTIONAL STRENGTHENING INITIATIVES

**(TC-0201093)**

## PLAN OF OPERATIONS

This document was prepared by the project team consisting of: Susana Sitja Rubio (RE2/SC2), Project Team Leader; Gerard Johnson (COF/CHA); Astrid Wynter (COF/CHA); Stephen Doherty (RE2/SC2); Maria Eugenia Zavala (RE2/OD3); and Maria Cristina Landazuri-Levey (LEG/OPR). Cristina Pando (RE2/SC2) was in charge of document production.

## CONTENT

## BASIC SOCIOECONOMIC DATA

The basic socioeconomic data for Haiti available on the Internet at the following address:

**English:**
http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata

**Spanish:**

http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata

## INFORMATION AVAILABLE IN THE FILES OF RE2/SC2

**PREPARATION:**

Letter of Request

**EXECUTION:**

## ABBREVIATIONS

| | |
|---|---|
| AGD | Customs Service (l'Administration Generale des Douanes) |
| DGB | General Budget Office (Direction Générale du Budget) |
| BRH | Central Bank (La Banque de la Republique d'Haiti) |
| CESI | Committee on Environmental and Social Impact |
| CIDA | Canadian International Development Agency |
| DEE | Office of Economic Studies (Direction des Etudes Economiques) |
| CSCCA | General Accounting Office (Cour Superieure des Comptes et du Contentieux Administratif) |
| CU | Coordination Unit |
| DGI | Direction Generale des Impots |
| EU | European Union |
| FSO | Fund for Special Operations |
| GOH | Government of Haiti |
| IFI | International Financial Institutions |
| MEF | Ministry of Economy and Finance |
| OAS | Organization of American States |
| PM | Primer Minister |
| UNDP | United Nations Development Program |
| UP | Coordination and Programming Unit (L'Unité de Coordination et de Programmation) |
| USAID | United States Agency for International Development |

# INSTITUTIONAL STRENGTHENING INITIATIVES

# (TC-0201093)

## EXECUTIVE SUMMARY

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| **Requestor:** | Government of Haiti | | |
| **Executing agency:** | Ministry of Economy and Finance | | |
| **Amount and source:** | IDB: (non-reimbursable FSO) | US$ | 950,000 |
| | Local: (in-kind) | US$ | 100,000 |
| | Total: | US$ | 1,050,000 |
| **Execution and Disbursement Periods:** | Execution: | 24 months | |
| | Disbursements: | 30 months | |

**Objectives:**

The general objective of the TC is to improve the GOH's efficiency and effectiveness in the management of economic policy, in particular in the area of public finance. The specific objectives of the TC are to: (i) preserve and improve the operational and financial management capacity of the MEF and key public entities, (ii) strengthen the capacity of the MEF to prepare and implement economic policies in an effective and efficient manner; and (iii) introduce a centrally managed institutional strengthening program for ministries and agencies of the Central Government.

**Description:**

This Program has three components: (i) institutional strengthening of the Ministry of Economy and Finance with the objective of improving the effectiveness of the institution to design, monitor, and evaluate the country's economic and fiscal policies; (ii) institution building initiatives with the objective of introducing a centrally managed program to preserve the institutional capacity of key public entities through activities that improve their efficiency and effectiveness in the management of public expenditures; and (iii) financing of a Coordination Unit (CU), under the supervision of the MEF to assist in the management of the TC.

**Bank's country and sector strategy:**

Given the hiatus in the IDB's lending program in Haiti, a shared development strategy has not been articulated since 1996. However, despite the fall-off in operations, the IDB has preserved its Country Office, which has used non-reimbursable resources to maintain a development dialogue, albeit muted, with the Government. In July/August 2002, an IDB technical mission visited Haiti to begin to prepare for the reactivation of our lending program. The mission focused on starting to resolve the technical and financial constraints that exist. The IDB concurred with the government on the importance of agreeing on a shared development strategy based on establishing key institutional capacity to support the government's objective of improving governance in public sector management. Particular importance was attached to the mechanisms for improved efficiency in public expenditures and improved accountability and transparency in financial management.

*The Bank's strategy in the sector*. The mandates from the Bank's Eighth Replenishment of Resources assign priority to the reform of tax and budgetary systems, citing these areas as critical elements in the development of a public sector sufficiently efficient and flexible to meet the most pressing needs of the region's rapidly modernizing societies. The bank supports actions that improve the efficiency and effectiveness of fiscal management including the preparation, execution and monitoring of national budgets, which reflect national development priorities and support sound fiscal policy. High priority is also attached to measures, which promote transparency and public participation in the management and monitoring of state finances.

**Benefits:** The benefits that would be achieved through the successful execution of this TC include: an improvement in the financial management of public resources which in turn will lead to a better use of scarce resources and facilitate the renewed influx of funds from donor agencies and other international cooperation partners, once arrears are paid, which will be better matched with national priorities than in the past.

**Risks:** The principal risk lies in the low level of managerial capacity in both quantitative and qualitative terms in the agencies of the GOH. The project team has sought to mitigate the risks in three ways: by focusing resources to those areas with the greatest need, it expects to have a impact on the institutional performance of the MEF and related ministries to maintain the institution building initiatives; by giving the beneficiary participants a voice in the identification and execution of these initiatives, it expects to channel resources to those where motivation is higher; and by providing a strong technical support for project management, it expects to overcome the problems created by trying to institute change in agencies

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| | which are struggling just to fulfill their routine obligations. |
| **Special contractual clauses:** | As a special contractual condition prior to first disbursement, the MEF will have named a high-ranking MEF official, from within the Office of the Minister, with managerial experience to supervise the Coordination Unit (see paragraphs 3.1 and 3.2). |
| **Poverty-targeting and social sector classification:** | None. |
| **Exceptions to Bank policy:** | None. |
| **Procurement:** | The acquisition of goods and the contracting of consulting services will be carried out in accordance with procedures of the IDB.<br>International competitive bidding will be used for procuring goods valued at US$350,000 equivalent or more and consulting services valued at US$200,000 equivalent or more. Procurement for lesser amounts will be conducted in accordance with the national legislation, provided such legislation does not contradict the Bank's basic procurement guidelines. No procurement of goods for over US$350,000 is expected for this Program. |

# I. FRAME OF REFERENCE

## A. Socioeconomic framework

1.1 Over the last decade Haiti has been buffeted by political instability and economic and social decline. Most of Haiti's public institutions have been debilitated. In 1992, the country faced a crippling embargo that ended in 1994 with the return of the democratically elected government. The end of the embargo brought new hope and the IDB and other donors launched new operations and disbursed hundreds of millions of dollars. The strategy to reconstruct the economic and social fabric included reform of the public sector. The anticipated resurgence was muted from the outset and ended in 1997 as political gridlock finally overwhelmed it. Subsequently, and stemming from contested parliamentary elections in May 2000, a new political and fiscal crisis enveloped Haiti. The embargo and the more recent fiscal and political crisis have further undermined public institutions and, in consequence, internal budget allocations to ministries have declined in real terms. In September 2002, most of the international community supported an Organization of American States (OAS) resolution calling on the Government and the multilateral lending institutions to normalize their lending programs.

1.2 The economic situation in the country has deteriorated further over the last year. In 2001, real GDP declined by 1.7 percent, with 2002 expected to yield a decrease of 0.5 percent. Over the last three years, real GDP has decreased by almost 7 percent. Government fiscal revenues are expected to be 8 percent of GDP, a slight improvement from 2001. In 2002, the current account deficit is expected to be 4.6 percent of GDP, and the non-financial public sector deficit after donations represents 2.6 percent of GDP. Due to these persistent deficits, monetary policy hashad to compensate, and the excess liquidity created has been reduced through sterilization activities conducted by the Central Bank. The persistent fiscal deficits have also contributed to a decrease in net international reserves from US$116 million in September 2001 to US$52 million in August 2002 (equivalent to barely more than half of one month of imports).

1.3 In addition to the reduction in the government's own fiscal resources, ministries have also lost external support due to a freeze in aid programs to the public sector, caused by the political crisis. This further eroded the already weak capacity of government ministries. Public sector salaries have been frozen since the late 1990's, exacerbating the exodus of qualified personnel. Ministries have lost key members of their technical teams. A number of these technical teams had been financed by external donors who have withdrawn their support. In response to the political crisis, most donors maintained the level of their support, but shifted it away from public sector agencies. The September 4, 2002, OAS resolution No. 822 opened the door to the International Financial Institutions (IFI) to reengage with the Government with the view to preserving what is left of key public institutions.

1.4 This weakening of already frail institutions has significantly diminished the capacity of the government to perform its basic functions with acceptable levels of efficiency and transparency. The Haitian government has asked for IDB support in strengthening the capacities of key government institutions including the Ministry of Economy and Finance (MEF), in particular its Economic Studies Directorate (DEE), Budget, treasury, tax collection and customs directorates; the Central Bank, and the Cour Superieure des Comptes et du Contentieux Administratif (CSCCA). The Government itself has assigned the highest priority to the establishment of the norms and mechanisms of public accountability. In response, the IDB has contracted a consultant to identify the priority options to improve the efficiency and transparency of fiscal and financial management in the public sector, particularly in the MEF, and to propose an action plan for reforms in the short and medium term. This consultancy has already produced a first report whose preliminary results concur with the diagnosis of the situation presented in this document.

1.5 Furthermore, given the likelihood that the Bank's lending program in Haiti will be reactivated in the short term, it is essential to support initiatives to preserve and strengthen the remaining institutional capacity in the line ministries directly responsible for implementing IDB financed operations. The Ministry of Finance and the Economy (MEF) is the key public institution responsible for coordinating the efficiency and transparency of public expenditure. It has managed to preserve a credible capacity to perform this function but needs strengthening to carry this level of excellence to the other ministries in the public sector.

1.6 The main weaknesses facing the MEF that have been highlighted for priority treatment are: (i) The need to have, on an annual basis, a ratified budget from which to work. (ii) There is a dire need for drastic reduction in the volume of public transactions that are approved through the 'current account' mechanism of payment whereby expenditures are made by individual ministries without a clear relationship to a pre-approved budget. (iii) The amounts spent by the various ministries are not known by the public at large. Accordingly, the MEF is in the process of developing a system for regular monthly publication of this information both in the printed and electronic media which will require strengthening of reporting in the line ministries. (iv) The MEF needs to increase the efficiency of collecting revenue, for which it needs specialized assistance and better technology. (v) The public debt, both external and internal, is incurred in an ad hoc fashion and the MEF is seeking to consolidate and better organize the process. (vi) The strengthening of the economic policy capabilities of the Ministry, its capacity to undertake economic studies and provide advice on the prospective economic situation to the Minister so that decisions can be made on a strategic basis.

## B. The Legal and Institutional Framework of the Ministry of Economy and Finance

1.7 The three principal mandates of the Ministry of Economy and Finance (MEF), as determined by law, are: (i) formulation and implementation of the state's economic and financial policies; (ii) elaboration and execution of the budget for the Republic; and (iii) responsibility for the state's fiscal policy, including the collection of taxes and duties and management of the state's property.

1.8 *The MEF's Economic and Financial Mission* is to: (i) undertake studies on the current and prospective economic situation; (ii) participate in the preparation of plan and programs for national economic development; (iii) encourage local and foreign investment and stimulating the creation of employment; and (iv) in conjunction with the Central Bank (Banque de la Republique d'Haiti – BRH), be responsible for monetary policy.

1.9 *The MEF's Budget Mission* requires it to: (i) coordinate the preparation of the General Budget (le Budget General de la Republique) and ensure its execution; (ii) ensure the management of the treasury; (iii) determine the advisability of state expenditures; and (iv) establish norms for public accounting and monitor their application.

1.10 *MEF's Fiscal Mission*. The MEF is responsible for fiscal policy and for assuring the collection of taxes and duties. The state's tax revenues are collected by the Tax Office, (Direction Generale des Impots – DGI) and the Customs Service (l'Administration Generale des Douanes – AGD), which are both decentralized services of the MEF. These are the only entities competent to collect taxes for the state and for managing the state's property. The MEF is also charged with monitoring the application of the laws concerning the establishment, organization, functioning and control of banks, foreign exchange bureaus, credit institutions and insurance companies.

## C. The Functions Assumed by the MEF

1.11 The MEF fulfills multiple functions, both those specifically prescribed by the law, as well as those that have become necessary in response to current demands. In light of the scope and implications of certain of these functions, a more detailed discussion follows.

### 1. Budget Preparation

1.12 As specified by law, the state's budget is prepared by the General Budget Office (DGB) (Direction Générale du Budget), a decentralized office of the MEF. This is one of the most important of the MEF's functions. In this respect, the MEF has a pre-eminent role vis-à-vis the other Ministries. In preparing the budget, the MEF proposes a framework to the Prime Minister (PM), where it presents the macroeconomic environment in which the budgetary exercise is being developed, the objective of macroeconomic policy and the norms and calendar for the preparation of the budget. The PM upon receipt of this proposal, will present a framework letter to the Ministries, which includes the PM observations on the matter, to request that they send to the MEF their anticipated expenditures for the fiscal exercise. When the MEF receives these partial budgets, it consolidates the information and presents it to the Cabinet to allocate the resources for the coming year, including fiscal receipts and internal and external financing. The individual budgets, the amounts of which often exceed available resources, are reviewed with each Ministry to be adjusted in accordance with these new instructions.

1.13 In its medium term strategy for 2002-2006, the Ministry of Finance argued for strengthening its General Budget Office, so that the budgetary norms and procedures are conducive to greater transparency and efficiency in the management of public expenditures. The budget is intended to express and support the government's major lines of action, and it is supposed to be based on strategic choices and priorities. However, it should be noted that for the fiscal years 1997 until 2000, the 1996-1997 budget was simply reinstated, as required by law. For the 2000-2001 exercise, amendments to the 1996-1997 Budget Law were submitted and voted on by Parliament. in November 2001, a new budget was submitted and voted upon in June 2002 for the year 2001-2002. The MEF's strategy proposes to rationalize public expenditures by making the budget, prepared annually, a real instrument for economic policy that addresses the government's most pressing needs.

### 2. The Treasury

1.14 The Treasury issues checks to state employees and makes disbursements to creditors or suppliers of goods and services. The Treasury maintains an account at the Central Bank, the Cashier for the State. This is the most important account into which the Treasury deposits receipts and keeps the revenue derived from sales to the Central Bank of foreign exchange derived from external funds received by the government. Overdrafts on the Treasury's account are automatically honored.

1.15 The Treasury monitors expenditures that are made in the course of budget execution. The Treasury's operations while simple in conception are complex operationally. In order to introduce an element of additional security for authenticating checks presented, the Treasury transmits to the Central Bank, on a daily basis, the list of checks issued, thus virtually eliminating the possibilities for fraud. This improvement was only possible with the Central Bank and Treasury's investment in technology. Among the challenges facing the Treasury, is the need to complete its activities within a shortened period of time but with the same or a higher level of reliability.

### 3. Borrower in the Name of the State

1.16 The Public Debt Directorate (Direction de la Dette Publique) at MEF, is within the General Budget Office. It compiles data on the debt but has a very limited role with respect to contracting debts for the state, negotiating credits, the interest rate or the various provisions in each agreement. It would be desirable for the public debt to be the result of deliberate policies rather than the aggregate of decisions taken on a case-by-case basis without reference to a given framework. It would also be useful to build in mechanisms to manage the exchange rate risk, which to date seems to be an issue that has not been addressed with regard to the state's indebtedness.

1.17 The MEF contracts the state's internal debt, which is comprised of bonds negotiated with commercial banks, interest bearing bonds held by the Central Bank, and a floating debt consolidated annually. It is the only entity that may act as borrower for the state. Advances from the Central Bank to the Treasury represent a source of borrowing at no cost to the Treasury, but at an unpredictable and largely unknown cost to the Central Bank, and has perverse effects on monetary policy.

### 4. Formulation of Macroeconomic Policy

1.18 The MEF is the primary interlocutor for the GOH with multilateral institutions such as the IMF, the World Bank, the IDB, the United Nations Development Program (UNDP), the European Union (EU) and others, as well as with bilateral agencies such as United States Agency for International Development (USAID), Canadian International Development Agency (CIDA). As such the MEF is often called upon to conceive of and react to proposals on the macro-economy, including required state reforms (laws on modernization of the state, privatization, decentralization, strengthening the financial system).

1.19 The MEF structure that is most involved on macroeconomic matters is the Directorate of Economic Studies (Direction des Etudes Economiques) (DEE). This office has the following functions given to it by Law: (i) design macroeconomic policy; (ii) undertake studies regarding the economic problems and propose adequate measures to resolve them; (iii) collect statistics that describe the economic situation and make forecasts and (iv) participate in the design of the Public Investment Program. Among other functions, the DEE is in charge of preparing the monthly *Table on Financial Transactions of the State*, which is currently the only regular detailed publication of the MEF to inform the public on the state of public finances.

1.20 The Coordination and Programming Unit (L'Unité de Coordination et de Programmation) (UP) has among its responsibilities to act as an advisory unit to the Minister on fiscal policy. Both the DEE and UP would benefit from strengthening their capacities related to policy and with better access to up-to-date information and technology.

### 5. Tax Collection

1.21 The role of tax collector is assigned to two decentralized entities, the Direction Generale des Impots (DGI) and the Customs Office (AGD), that function in collaboration with the MEF. Tax collection in Haiti is a mere 8% of GDP; therefore tax evasion is rampant. In addition, the infrastructure for identifying taxpayers is inadequate. Investments in automating the tax rolls have been incomplete (financed by Canada and by the IDB). The result is that some data are automated and some are still maintained manually.

1.22 The Customs Office (AGD), collects duties on imports, as well as other internal taxes. The AGD suffers from similar challenges to those of the DGI. These are areas that should be a key priority for strengthening under this Program.

### 6. Financial Management

1.23 It should be noted that the MEF has begun the work on implementing an integrated public financial management system. The first phase, which is a pilot in MEF, is underway with financing from the French Cooperation. The second phase would involve implementing the system in all Ministries and entities within the public financial system. The system would reduce delays in processing payments and posting receipts, as any transaction would only need to be entered once in the system and the information would be registered in all relevant agencies. This would in turn reduce transaction costs, provide uniformity, and reduce the possibility of errors and fraud, and enhance the capacity to monitor and follow-up. Transparency and accountability would also be facilitated.

## D. Other agencies responsible for State finances

### 1. La Cour Superieure des Comptes et du Contentieux Administratif (CSCCA) – General Accounting Office

1.24 The CSCCA is an autonomous and independent agency whose main responsibilities are to certify government revenues and verify public expenditures (by means of audits and other controls), in order to ensure conformity with the general budget. A review of the conditions under which the CSCCA operates reveals weaknesses in: (i) the Cour's internal regulation, including the fact that the mandates of their 10 members expire at the same time and since November of 2001, no members have been appointed; (ii) the absence of a clear yet sufficiently broad legal mandate, for example, the law requires members to remain on the Cour until new appointments are made, yet limits their activities; (iii) limitations in its institutional capacity; which because some of its natural functions fall by law under the responsibility of the MEF; and (iv) serious deficits with regard to access to critical information necessary for audits. The CSCCA is charged with clearing off on contracts and monitoring expenditures that are made with public funds.

1.25 A Bank financed Technical Cooperation (ATN/SF-5996-HA)) in the amount of US$150,000, identified and addressed a number of the CSCCA's needs. The remaining balance of US$20,000 under this TC was cancelled in late 2002, because of the legal incapacity of the Cour (given the expiration of the members' mandates) to continue to execute the program. The Senate, which is responsible for selecting the members of the CSCCA, has started but not yet completed the selection process for the appointment of new members.

### 2. La Banque de la Republique d'Haiti (BRH) – The Central Bank

1.26 The basic role of a Central Bank (Banque de la Republique d'Haiti) (BRH) is to control the money supply with the aim of stabilizing prices in the economy (low inflation). Included among the objectives assigned to the Central Bank by law are: (i) promoting the development of the national economy; (ii) encouraging the development and the optimum use of the country's productive resources; (iii) adapting its policies to the growth of national production; and (v) facilitating the expansion of internal and external commerce in order to attain and maintain a high level of employment and of real revenue. The Central Bank acts as the Cashier for the State, an attribution given to it by law.

1.27 The IMF has financed a Technical Cooperation for the BRH. The reforms that have been already undertaken by the BRH, in spite of the political and economic crisis, have been substantial, particularly in the area of financial regulation and supervision. Technical assistance is still needed in the following areas to improve the BRH's ability to carry out its functions: further computerization; approval of its organic law, and the banking law; staff training; and management of exchange reserves. Furthermore, the Central Bank needs to upgrade its links with the MEF to ensure efficient control of monetary expansion.

## E. The situation in the line ministries

1.28 The financial situation in the line ministries that execute the budget is characterized by a severe and chronic shortage of resources resulting in high percentages of the budget going to meet fixed recurrent costs such as salaries. Funds are not systematically allocated on a program basis in all Ministries; expenditures are generally not linked to specific, measurable outcomes and costs are not linked to benefits. Rather funds go to categories of expenditure, with little or no measurement of their effects and little attention paid to such matters as cost norms, and efficiency or effectiveness of the use of funds. The execution of the budget is rarely measured in terms of physical outcomes, making it difficult to see if funds are achieving the benefits intended. In addition, the relative lack of up to date public information on the budgetary affairs of the line ministries limits popular participation in the formulation and monitoring of public expenditures by the stakeholders and intended beneficiaries. This lack of public information and awareness also inhibits transparency in the operations of these ministries and limits their accountability.

## F. The country's strategy

1.29 During the Bank's technical mission in July 2002, the Government presented a medium-term development strategy, *Haiti Strategie a Moyen Terme 2002-2006*, prepared by the MEF, which focuses on three main "pillars": (i) ensuring macroeconomic stability and improving governance in public sector management, with particular importance on improving the mechanisms of public accountability, transparency and the management of public financial resources; (ii) providing support to improve the capacity to absorb in a productive manner foreign resources and create an environment for private sector investment; and (iii) developing human resources, with health, education, housing, water and sanitation as the backbone of this pillar.

1.30 In a letter dated September 25, 2002, the GOH requested a non-reimbursable technical assistance for institutional strengthening of the public sector.

## G. The Bank's strategy

1.31 Given the hiatus in the IDB's lending program in Haiti, a shared development strategy has not been articulated since 1996. However, despite the fall-off in operations, the IDB has preserved its Country Office, which has used non-reimbursable resources to maintain a development dialogue, albeit muted, with the Government. In July/August 2002, an IDB technical mission visited Haiti to begin to prepare for the reactivation of our lending program. The mission focused on starting to resolve the technical and financial constraints that exist. The IDB concurred with the government on the importance of agreeing on a shared development strategy based on establishing key institutional capacity to support the government's objective of improving governance in public sector management. Particular importance was attached to the mechanisms for improved efficiency in public expenditures and improved accountability and transparency in financial management.

1.32 In September 2002, the Board of the IDB approved an Action Plan for Haiti, to deepen the policy dialogue and continue removing the obstacles to reactivation of our lending program. One of the key aspects of this initiative will be to preserve and strengthen the financial management capacity of the line ministries through which IDB programs are executed and the agencies that oversee their activities.

## H. The Bank's strategy in the sector

1.33 The mandates from the Bank's Eighth Replenishment of Resources assign priority to the reform of tax and budgetary systems, citing these areas as critical elements in the development of a public sector sufficiently efficient and flexible to meet the most pressing needs of the region's rapidly modernizing societies. The bank supports actions that improve the efficiency and effectiveness of fiscal management including the preparation, execution and monitoring of national budgets, which reflect national development priorities and support sound fiscal policy. High priority is also attached to measures, which promote transparency and public participation in the management and monitoring of state finances.

### I. The program strategy

1.34 This TC is part of an initiative to re-establish an institutional culture of accountability and efficiency for the management and allocation of resources, monitoring their disbursement and evaluating their impact. It is global in nature to make sure it is flexible enough to target the most pressing needs at the time it is ready for disbursement. There are other donors that may step in and the Government is also taking steps on its own to resolve the most glaring institutional weaknesses. The Program defines criteria as to the priority areas to be targeted, the beneficiaries and the activities to be financed by the TC. However, final identification of specific activities will be determined during execution. The control and direction of the operation has been placed in the hands of a key executive, the Minister of Economy and Finance, who will involve key stakeholders in the formulation and execution of ameliorative measures to avert the deepening of a fiscal crisis, and to strengthen the MEF's capacity to manage the country's financial affairs.

1.35 Furthermore, this Program is the first phase of the Bank's support for strengthening the country's economic policy formulation capacity, in particular with respect to public finances. This Program will address the MEF's and other key institutions most pressing needs, as a conduit for setting the ground work for a future Technical Cooperation to be prepared in 2003 to assist the MEF in implementing its medium term strategy for improving the management of resources and expenditures in an efficient, effective and transparent fashion.

## II. THE PROGRAM

### A. Objectives and description

2.1 The general objective of the TC is to improve the GOH's efficiency and effectiveness in the management of economic policy, in particular in the area of public finance.

2.2 The specific objectives of the TC are to: (i) preserve and improve the operational and financial management capacity of the MEF and key public entities, (ii) strengthen the capacity of the MEF to prepare and implement economic policies in an effective and efficient manner; and (iii) introduce a centrally managed institutional strengthening program for ministries and agencies of the Central Government.

## B. Program structure

2.3 The program has three principal components:

### 1. Institutional Strengthening of the Ministry of Economy and Finance (US$329,200)

2.4 The objective of this component is strengthening the MEF's effectiveness to design, monitor and evaluate the country's economic and fiscal policies and to identify actions for implementation in the medium term. The Program would support the MEF in the improvement of its capacity to: (i) make informed and strategic decisions regarding economic policies, expenditures, investment, aid and debt; (ii) prepare and execute the national budget, specifically in key sectors, and improve the transparency of the budget process by facilitating the flow of information and, standardizing budgetary information in the public sector; (iii) improve the functions of the treasury to collect and analyze information on flows of resources and its payment functions; (iv) improve the management of the internal and external debt of the country, and the programming of aid flows; and (v) improve the methodology for verifying accounting information and consolidating financial statements. This support will be provided in the context of the MEF's requirements to expand its pilot program for integrated financial management that is currently underway in the Ministry, and in accordance with the MEF's identified priorities. The assistance to the MEF will include the installation of systems needed to meet the objectives of this TC, specifically for activities that seek to build the capacity for budget programming and for better provision of public information on fiscal policy.

2.5 *Strategic Planning.* This program will prepare, where needed, and implement action plans to overcome the weaknesses identified by the MEF and the Bank through prior studies to strengthen the economic policy and managerial capacity of the MEF. The inherent weakness of the MEF is centered in its lack of capacity to plan, analyze and manage economic policy and the various inflows and outflows of funds, and to plan accordingly. The MEF has identified an inherent weakness in managing the country's aid flows, a particularly important issues since the GOH is preparing for a future resumption of aid flows, to insure that the receiving institutions have the capacity to absorb the funds, and the fixed cost implications of the projects financed by the donors, and adjust the country's long term budget planning accordingly. Special emphasis will be given to improving the capacity of the MEF's Directorate of Economic Studies and the Coordination and Programming Unit to execute their functions.

2.6 *Treasury.* Assist the MEF in improving the capacity of the Treasury to analyze information on inflows and outflows of resources. The Program will finance consulting services to analyze the flow of information from the revenue service and customs offices to the Treasury, identify delays in transfer of information, recommend processes to facilitate the ability of the Treasury to optimize the use of resources, pay obligations in a speedy fashion, analyze the liquidity requirements of the state and assess the monetary and fiscal impact of its actions.

2.7 *Debt and Aid Management.* The purpose of assistance in this area is to improve the capacity of the MEF, and in particular its Debt Unit, to insure the efficient programming, utilization and control of the financial resources obtained through public debt (both internal and external) and aid. In Haiti, the majority of financing available in the past has been in the form of grants, or soft loans. The financing costs of these are low, but there are obvious costs related to the scarce availability of management resources, and there are long term costs associated with the programs financed, making the flow of information and a programmatic approach to aid and debt management imperative to the budgetary process and to the fiscal and monetary policy. As well, the costs to the Central Bank (CB) of the internal debt undertaken by the MEF through advances from the CB make internal debt management a priority of these activities.

2.8 *Accounting.* This area will finance activities pertaining to the implementation of procedures to collect the accounting information necessary to elaborate and consolidate financial statements. This will require technical assistance to assess the current processes, recommend new procedures, and establish the systems requirements and training needs of the MEF in this area, especially in relation to the impending implementation of the integrated financial management system.

### 2. Institution Building Initiatives (US$519,200)

2.9 The objective of this component is to introduce a centrally managed institutional strengthening program to preserve the institutional capacity of key public entities, by improving their efficiency and effectiveness in the management of public resources.

2.10 The Program will finance institutional strengthening initiatives to overcome some of the limitations in line ministries described in section D above in the following areas: (i) strategic planning, to assist Ministries in improving their capacity to evaluate policies, how these translate into projects, and define the financial requirements to achieve the policy objectives; (ii) preparation of budget proposals and budget execution, to assist Ministries in the preparation of the budget proposals for the priorities identified by the institution, on a project basis, utilizing the guidelines established by the MEF for the execution and monitoring of the national budget. As well, the Ministry can request assistance to monitor the execution of the budget, and prepare reports in accordance with MEF reporting requirements; (iii) personnel management, providing assistance in the definition of career streams, job descriptions, training requirements, including a gender perspective and recommendations for action; (iv) accountability and transparency; (v) monitoring and evaluation methodologies; (vi) procurement processes and systems; and (vii) computerization where required to meet the objectives of this TC.

2.11 The assistance provided can include the hiring of specialists, training; promotion of public participation; and the installation of vital equipment and software for the achievement of the objectives of this Program (limited to 30% of the total financing for each project as allowed by the Bank). Each project executed under this initiative will include resources to finance an evaluation, as a precursor to providing lessons of experience for any future activities. Eligible ministries and agencies can access the resources by presenting project proposals that satisfy qualifying criteria to the MEF.

2.12 The criteria required of all projects to qualify for technical assistance are: (i) has to have support of the MEF and the line ministry; (ii) does not incur additional incremental operating costs; and (iii) the beneficiary agency has to demonstrate readiness and executing capacity. Each project has to meet at least two of the following criteria:

a. Improving governance in public sector management, with particular importance on improving the mechanisms of public accountability and transparency in the management of public financial resources.

b. Providing support to improve the capacity to absorb, in a productive manner, foreign resources and create an environment for private sector investment.

c. Affects an area of significance in terms of social development in line with the priorities established in the government's medium term strategy (health, education, housing, water and sanitation having priority).

d. Affects an agency managing an area of significance in terms of budget allocations.

e. Contributes to cost savings in the operation of the agency.

2.13 Based on an assessment of the GOH's priorities and the above mentioned criteria, the Ministries and Agencies that would be eligible for resources through this component are: (i) Planning and External Cooperation; (ii) National Education; (iii) Agriculture and Natural Resources; (iii) Public Health and Population; (iv) Environment; (v) Commerce and Industry; (vi) Public Works, Transportation and Communications; (viii) the Central Bank; and (ix) General Accounting Office (la Cour Superieure des Comptes et du Contentieux Administratif). As well, GBO, DGI and AGD, as decentralized entities, can access resources from this component. The assistance will be available on a first come, first served basis, by which a Ministry or agency identified by the MEF as having priority will be provided financing upon approval of its project, without prejudice that other entities are also preparing projects but these have not been presented.

2.14 This component will also finance consultants to assist Ministries and agencies that request support in the preparation of their projects to be presented to the MEF (see chapter III). These consultants will have experience in project preparation and in fiscal management. Local consultants will be hired to provide support to the international consultants as needed.

### 3. Program Management (US$64,000)

2.15 The program will be managed by a Coordination Unit (CU), supervised by a high ranking official from the MEF, with the assistance of consultants, and aided where necessary by assigned GOH staff. The CU will: (i) promote, receive and review applications for technical assistance from eligible beneficiaries, and (ii) administer the contracts of consultants hired to assist beneficiary entities in the preparation and implementation of the assistance proposals. US$20,000 has been allotted to evaluate the overall impact of the program. US$10,000 has been allocated for an independent audit of the operation.

## C. Cost and financing

2.16 The total cost of this program is US$1,050,000, of which US$950,000 is financed through non-reimbursable resources from the Fund for Special Operations (FSO), and an in-kind equivalent of US$100,000 is provided as local counterpart. A detailed cost table follows.

| Category | Total | IDB | GHA |
|---|---|---|---|
| **1. Institutional Strengthening of MEF** | **379,200** | **329,200** | **50,000** |
| 1.1 Consultants | 230,400 | 230,400 | |
| 1.2 Equipment | *98,800* | *98,800* | |
| 1.3 MEF Staff time | 50,000 | | 50,000 |
| **2. Institutional Building Initiatives** | **529,200** | **519,200** | **10,000** |
| 2.1 Consultants and equipment | 519,200 | 519,200 | |
| 2.2 MEF Staff time | 10,000 | | 10,000 |
| **3. Program Management** | **74,000** | **64,000** | **10,000** |
| 3.1 Consultants | 60,000 | 60,000 | |
| 3.2 Equipment | 4,000 | 4,000 | |
| 3.3 MEF Staff time | 10,000 | | 10,000 |
| **4. Administration, Accommodation and Mobilization** | **30,000** | | **30,000** |
| **5. Evaluation** | **20,000** | **20,000** | |
| **6. Audit** | **10,000** | **10,000** | |
| **7. Contingencies** | **7,600** | **7,600** | |
| **Total** | **1,050,000** | **950,000** | **100,000** |

2.17 The Bank will recognize as local counterpart incremental expenses in transportation and administration that are incurred by the GOH for the execution of this Program. The Bank's financing will not pay for any increment in the salaries of staff of the MEF or any other GOH institution.

## III. PROGRAM EXECUTION

### A. The executing agency

3.1 The executing agency for this TC will be the MEF. The MEF will approve and administer the projects to be financed in other government agencies, with the IDB's no-objection. A Coordination Unit (CU) will be established within the MEF consisting of a coordinator to manage the program and assist the MEF in identifying further institutional strengthening actions for the GOH, under the supervision of a high-ranking MEF official, from within the Office of the Minister, with managerial experience. Prior to the first disbursement, the MEF will design the official that will supervise the CU.

3.2 The CU will process proposals, hire consultants to assist the dependent ministries and agencies in preparing their projects, supervise consulting contracts, process acquisitions, prepare disbursement requests to be presented to the IDB, ensure the attainment of the objectives of the program, prepare the progress and evaluation reports required by the IDB, and present to the MEF the financial reports required by the IDB. This mechanism will take advantage of the installed capacity within the MEF; build further capacity to supervise technical assistance programs, while at the same time benefiting from a full time professional within the CU to assist in the implementation of the program.

### B. Program execution and administration

3.3 The MEF will be in charge of promoting the project in the eligible ministries and agencies through information activities undertaken by the CU. The CU will provide guidance to the eligible institutions as to the mechanisms to access funds, the activities eligible, the available assistance for preparation and the requirements for presentation of proposals.

3.4 There are two approaches to access resources from the TC: (i) the CU can suggest to a line Ministry or Agency the use of the resources to strengthen its capacity through eligible activities. The program has developed minimum selection criteria for beneficiary entities that are based on need and relevance to the Government's development effort. The CU would agree on a proposal with the line ministry to be presented to the MEF for approval; (ii) a line ministry or agency that meets the pre-established selection criteria can submit a proposal, that is in line with the activities eligible to be financed by the program (see component 2), in order to overcome limitations which it has recognized and raise the level of its own performance. In either case, the maximum for any project may not exceed 40 percent of the resources allocated to component 2 (see paragraphs 2.10-2.13). Ministries and agencies interested in presenting a project may request the hiring of a consultant to assist them in preparing the project. The MEF will hire these consultants with resources reserved for this purpose under component 2.

3.5 The MEF will present to the Bank the proposed TC projects that meet the selection criteria detailed in component 2, for the Bank's no-objection.

3.6 All hiring of consultants and purchase of equipment will be done by the MEF, and the goods and services provided to the Ministries or Agencies. No resources in cash will be transferred to the Ministries or Agencies that request institutional strengthening projects.

## C. Procurement of goods and services

3.7 The acquisition of goods and the contracting of consulting services will be carried out in accordance with procedures of the IDB.

3.8 International competitive bidding will be used for procuring goods valued at US$350,000 equivalent or more and consulting services valued at US$200,000 equivalent or more. Procurement for lesser amounts will be conducted in accordance with the national legislation, provided such legislation does not contradict the Bank's basic procurement guidelines. No procurement of goods for over US$350,000 is expected for this Program.

## D. Execution and disbursement schedule

3.9 The execution period for this program is 24 months from the date of signing of the respective Technical Cooperation Agreement, with a disbursement period of 30 months, counting from the same date.

3.10 The resources of the TC will be deposited in a special account at the Central Bank of Haiti, in the name of the MEF.

3.11 The proposed rotating fund for this program should be 5% of the total resources from the financing.

## E. Monitoring and evaluation

3.12 The Country Office (COF/CHA) will be responsible for monitoring execution of the TC. This will include the review of proposals in order to ensure that they meet the selection procedures, disbursement requests, reporting and all other activities associated with implementation of the activities foreseen in this operation. Close consultation with RE2/SC2 will be observed throughout execution.

3.13 To measure the achievements and results of the Program, and make the necessary adjustments to the components according to new perceived need and lessons of experience, a project review will be conducted by the project team after the first year of execution. A mid-term revision of progress will be undertaken by the MEF and the project team GOH when 50% of the financing has been disbursed.

3.14 A final impact evaluation will be undertaken when 90% of the financing has been disbursed. This evaluation must be completed within the six months preceding the last disbursement of this program. The MEF and the Bank will develop the terms of reference for this evaluation, and resources from the financing have been reserved for this purpose.

### F. Auditing

3.15 In conformity with accounting practices, the MEF will establish and maintain accounts and records for the program. An independent firm of auditors acceptable to the Bank will audit such accounts and records annually. The financial statements should be presented within 30 days of the end of each financial year and the final accounts should be presented within 90 days of the date of the last disbursement of the financing provided by the Bank. The costs of the external audit will be financed with the resources of the TC.

## IV. VIABILITY AND RISKS

### A. Institutional viability

4.1 Given the frailty of governance in the public sector, the operation will seek to sustain its benefits by permanently upgrading the performance of key personnel in the areas of budgeting, finance and planning; and by establishing the feasibility of key cost effective measures through the evaluation of experience and the recording of lessons learned.

### B. Financial viability

4.2 By developing a capacity to manage public resources, the operation will promote renewed interest of donors in funding the development programs of the GOH. It should therefore increase the resources available and make better use of them in reaching the nation's development goals.

### C. Environmental and Social Viability

4.3 This operation is viable in environmental and social terms since owing to its nature, no environmental or social impact is foreseen.

### D. Beneficiaries and benefits

4.4 The beneficiary is the Republic of Haiti. The benefits include an improvement in the financial management of public resources which in turn will lead to a better use of scarce resources and facilitate the renewed influx of funds from donor agencies and other international cooperation partners, once arrears are paid, which will be better matched with national priorities than in the past.

## E. Risks

4.5 The principal risk lies in the low level of managerial capacity in both quantitative and qualitative terms in the agencies of the GOH. The project team has sought to mitigate the risks in three ways: by focusing resources to those areas with the greatest need, it expects to have a impact on the institutional performance of the MEF and related ministries to maintain the institution building initiatives; by giving the beneficiary participants a voice in the identification and execution of these initiatives, it expects to channel resources to those where motivation is higher; and by providing a strong technical support for project management, it expects to overcome the problems created by trying to institute change in agencies which are struggling just to fulfill their routine obligations.